

Message Text

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70

ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-01

INR-07 NSAE-00 TRSE-00 XMB-04 OPIC-06 SP-02 CIEP-02

LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04 CEA-01 PA-02

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FM AMEMBASSY BONN

TO SECSTATE WASHDC 8509

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DEPARTMENT PASS TREASURY AND FEDERAL RESERVE

E.O.: 11652, N/A

TAGS: EFIN, GW

SUBJECT: BUNDESBANK LOWERS REAL DISCOUNT AND LOMBARD
RATES

1. THE CENTRAL BANK COUNCIL AT ITS REGULAR BIWEEKLY MEETING TODAY DECIDED TO REDUCE, EFFECTIVE FRIDAY MARCH 7, THE REDISCOUNT RATE BY 0.5 PERCENT TO 5 PERCENT AND THE LOMBARD RATE BY 1 PERCENT TO 6.5 PERCENT. THIS IS THE FOURTH TIME THE BUNDESBANK HAS REDUCED ITS INTEREST RATES IN THE LAST SIX MONTHS. THE PREVIOUS REDUCTION (OF 0.5 PERCENT IN EACH INTEREST RATE) WAS MADE ON FEBRUARY 6.

2. IN HIS PRESS CONFERENCE FOLLOWING THE CENTRAL BANK COUNCIL MEETING, BUNDESBANK PRESIDENT KLASSEN SAID THAT THE DECISION WAS MADE IN LIGHT OF DOMESTIC ECONOMIC DEVELOPMENTS, NAMELY THE DISCOURAGING JANUARY LEVEL OF INDUSTRIAL ORDERS. KLASSEN EXPRESSED HOPE THAT BANKS WOULD PASS THESE RATE REDUCTIONS ON TO THEIR CUSTOMERS IN THE FORM OF LOWER TERM INTEREST RATES AND VOICED DISAPPOINTMENT THAT THIS HADN'T BEEN SUITABLY DONE IN
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THE PAST.

3. OFFICIALS AT THE BUNDESBANK ALSO TELL US THAT AN
ADDITIONAL UNDERLYING FACTOR FOR THE ANNOUNCED RATE
REDUCTIONS WAS THE TENDENCY TOWARD LOWER RATES ABROAD
AND THE RESULTING UPWARD PRESSURE ON THE DM.
HILLENBRAND

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